

Crows Nest Industries

AR45

80th Annual Report 1976



CROWS NEST INDUSTRIES LIMITED

CORPORATE INFORMATION

OFFICERS

THOMAS F. GLEED, Chairman & President

NEIL B. IVORY, Vice-Chairman

J. J. CRABB, Vice-President, Exploration

R. H. CROUSE, Vice-President, Mining

BRIAN C. PINNELL, Secretary-Treasurer & Comptroller

FOREST PRODUCTS

NORMAN S. DENMARK, General Manager

OPERATIONS

HEAD OFFICE — Fernie, British Columbia

SAWMILL — Elko, British Columbia

TRANSFER AGENTS

CANADA PERMANENT TRUST COMPANY,
Toronto and Calgary

SEATTLE-FIRST NATIONAL BANK, Seattle

REGISTRARS

NATIONAL TRUST COMPANY, LIMITED,
Toronto and Calgary

SEATTLE-FIRST NATIONAL BANK, Seattle

SHARE LISTING

TORONTO STOCK EXCHANGE —
ticker abbreviation CNC

AUDITORS

CLARKSON, GORDON & CO., Calgary

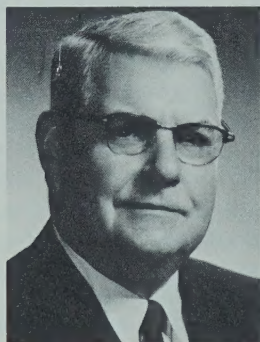
BANKERS

BANK OF MONTREAL

CANADIAN IMPERIAL BANK OF COMMERCE

SEATTLE-FIRST NATIONAL BANK

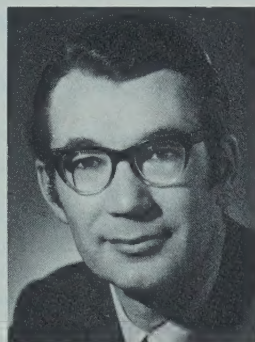
BOARD OF DIRECTORS



THOMAS F. GLEED,
Seattle
*Chairman & President
of the Company*



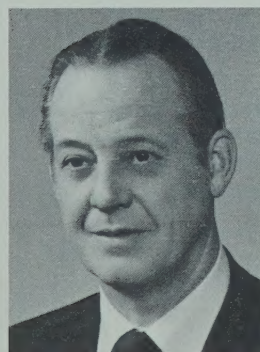
C. ROBERT BINGER,
St. Paul
*President, Resources Division,
Burlington Northern Inc.*



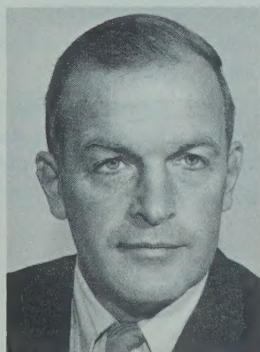
NEIL B. IVORY,
Montreal†
*President and Director,
Pembroke Management Ltd.
Vice-Chairman of the Company*



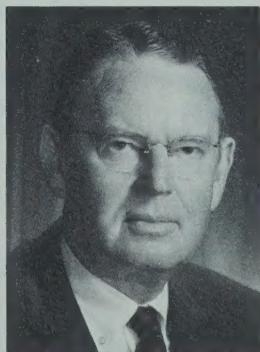
SAMUEL K. KETCHAM,
Vancouver*
*President, West Fraser
Timber Co. Ltd.*



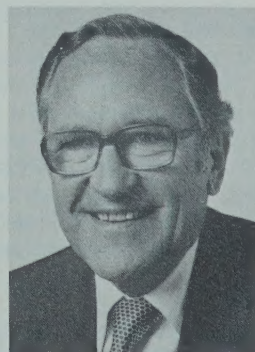
CLIFFORD L. LAROCK,
Montreal*†
*Chairman and Director,
Pembroke Management Ltd.*



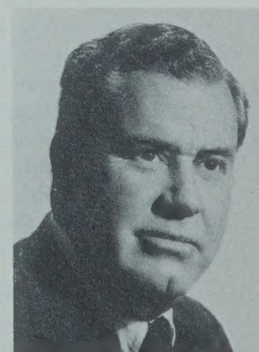
JOHN W. PITTS,
Vancouver*†
*President
Okanagan Helicopters Ltd.*



GEORGE V. POWELL,
Seattle
Lawyer



D. E. SKINNER,
Seattle*
Executive



BRUCE W. WATSON,
Calgary
*President, Canadian
Homestead Oils Limited*

* Member Finance Committee

† Member Audit Committee



CROWS NEST INDUSTRIES LIMITED

REPORT TO SHAREHOLDERS

The results for the year ended December 31, 1976, show an improvement over the year 1975 mainly due to higher prices for lumber and also for oil and gas. The extent of this improvement is reflected in the increase in total net income to \$918,000 or \$1.22 per share, compared to \$487,000 or \$0.65 per share, for 1975. The Company has no long term debt and working capital stands at the satisfactory level of \$4,362,000.

The earnings outlook for 1977 is favourable due to the commencement of production payments from Kaiser Resources, continuing high price levels for oil and gas and reasonably good prospects for the forest products division.

COAL

Production payments at a rate of 50 cents per short ton of coal shipped by Kaiser Resources Ltd. from properties formerly held by Crows Nest will commence in 1977. These payments to Crows Nest will continue until a total of \$34,000,000 has been paid. Shipments from these properties have recently been around 6,000,000 short tons per annum, but could temporarily be at a lower rate because of reduced demand.

After several months of negotiations between Crows Nest and Kaiser Resources Ltd., the difficult problem of the re-acquisition of record title to 40 percent of the coal bearing lands, originally transferred to Kaiser Steel for the benefit of Kaiser Resources, was satisfactorily resolved. Under this agreement approximately 43,000 acres of coal bearing lands were returned to your company.

An excellent working relationship has been established with Mitsui & Co. and their Japanese associates. The Line Creek feasibility study, which is being undertaken with Mitsui, is progressing most satisfactorily with completion now scheduled for October of 1977.

In view of the expanded scale of the Company's involvement in coal it has been fortunate in securing the services of Mr. Russell Crouse, an experienced and highly regarded mining engineer who has spent many years in senior managerial positions at open pit mining operations. Mr. Crouse joins the Company as Vice-President, Mining and is expected to have an active role in the management of the Line Creek joint venture with Mitsui & Co. and their partners.

FOREST PRODUCTS

Lumber prices improved considerably during the year. There was also a significant increase in the amount of

lumber and chips sold. As a result of these factors this division showed a profit for the year whereas it operated at a loss in 1975.

OIL AND GAS

While there was a decline in production of both oil and gas as compared with 1975 this was more than offset by price increases for both products. In 1976 the pre-tax earnings from this source were 15% higher than the prior year.

DIRECTORS AND OFFICERS

Late in September, 1976, the death of former president, William R. Prentice, was a real loss to the community as well as to the board of directors. Mr. Prentice had 37 years of interesting and constructive relationship with Crows Nest Industries and its predecessor companies. The Fernie community is aware that in 1972 as part of the Company's 75th Anniversary celebrations a gift was made to the City of Fernie of a 13 1/2-acre park complete with playing fields in honour of Bill Prentice, and the park bears his name.

Towards the end of the year M. Bruce Pepper resigned as president and a member of the board of directors in order to become the managing director of the Vancouver Board of Trade. We wish him the best of luck and every success in his new position.

Also during the year the Company lost the services of Henry C. Judd when he resigned from the board. Mr. Judd was an outstanding director and for many years chairman of the Finance Committee. His contribution to the Company will be sorely missed.

We are indeed fortunate to acquire as new directors C. Robert Binger of St. Paul, Minnesota, and Bruce W. Watson of Calgary, Alberta. Mr. Binger is President, Resources Division, Burlington Northern Inc. and enjoys a fine reputation in both the energy and the forest products industries. Mr. Watson is President of Canadian Homestead Oils Ltd. and has had wide experience in the oil and gas business where he has always been highly regarded.

You will note that I am signing this report as Chairman and President. This is by no means a long term solution but has been brought about by the resignation of M. Bruce Pepper, the former president.

Thomas F. Gleed
Chairman and President

FINANCIAL STATEMENTS

AUDITORS' REPORT

To the Shareholders of
Crows Nest Industries Limited

We have examined the consolidated balance sheet of Crows Nest Industries Limited as at December 31, 1976 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1976 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Canada
February 21, 1977

CLARKSON, GORDON & CO.
Chartered Accountants



CROWS NEST INDUSTRIES LIMITED

CONSOLIDATED BALANCE SHEET

December 31, 1976 and 1975

ASSETS

	1976	1975
CURRENT:		
Cash and term deposits	\$ 372,000	\$ 2,217,000
Accounts receivable	2,279,000	1,228,000
Inventories (Note 2)	2,986,000	1,298,000
Prepaid expenses	308,000	217,000
	<u>5,945,000</u>	<u>4,960,000</u>
FIXED:		
Forest products —		
Timber cutting rights, roads and real estate		
less accumulated depletion of \$3,179,000		
(1975 - \$2,672,000)	2,024,000	1,918,000
Plant and equipment less accumulated		
depreciation of \$5,370,000		
(1975 - \$4,649,000)	4,852,000	5,170,000
Petroleum and natural gas —		
Acquisition and productive development costs		
less accumulated depletion of \$2,794,000		
(1975 - \$2,740,000)	790,000	662,000
Production equipment less accumulated		
depreciation of \$1,635,000		
(1975 - \$1,542,000)	370,000	365,000
Coal —		
Acquisition, exploration and development costs	2,014,000	1,868,000
	<u>10,050,000</u>	<u>9,983,000</u>
OTHER:		
Deferred costs (Note 4)	1,255,000	1,276,000
Notes receivable (Note 5)	72,000	122,000
Deposits and mortgages receivable	143,000	145,000
	<u>1,470,000</u>	<u>1,543,000</u>
	<u>\$17,465,000</u>	<u>\$16,486,000</u>

See accompanying notes.

LIABILITIES AND SHAREHOLDERS' EQUITY

	1976	1975
CURRENT:		
Bank loan	\$ 150,000	
Accounts payable and accrued charges.....	1,113,000	\$ 1,061,000
Income and other taxes payable.....	320,000	232,000
	<u>1,583,000</u>	<u>1,293,000</u>
DEFERRED INCOME TAXES	314,000	133,000
SHAREHOLDERS' EQUITY:		
Capital (Notes 5 and 6) —		
Authorized —		
12,000 6% cumulative redeemable convertible preferred shares of \$25 par value each		
1,187,950 common shares of \$8 par value each		
Issued —		
2,882 preferred shares (1975 - 4,884)	72,000	122,000
747,692 common shares (1975 - 745,872)	5,983,000	5,968,000
Contributed surplus (Note 6)	602,000	567,000
Retained earnings.	<u>8,911,000</u>	<u>8,403,000</u>
	<u>15,568,000</u>	<u>15,060,000</u>
On behalf of the Board:		
THOMAS F. GLEED, Director.		
NEIL B. IVORY, Director.		
	<u>\$17,465,000</u>	<u>\$16,486,000</u>



CROWS NEST INDUSTRIES LIMITED

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

For the years ended December 31, 1976 and 1975

	1976	1975
Sales:		
Forest products	\$11,160,000	\$6,677,000
Petroleum and natural gas.	1,986,000	1,720,000
	<u>13,146,000</u>	<u>8,397,000</u>
Expenses:		
Operating	9,567,000	6,280,000
Exploration	40,000	31,000
General and administrative	942,000	735,000
Depreciation	828,000	852,000
Depletion.	561,000	315,000
	<u>11,938,000</u>	<u>8,213,000</u>
Operating income.	<u>1,208,000</u>	<u>184,000</u>
Other income:		
Interest and other income	222,000	208,000
Gain on sale of fixed assets	53,000	39,000
	<u>275,000</u>	<u>247,000</u>
Income before income taxes.	1,483,000	431,000
Income taxes (reduction)	565,000	(56,000)
Net income for the year	918,000	487,000
Retained earnings, beginning of year	8,403,000	8,296,000
Dividends —		
Preferred	(7,000)	(7,000)
Common	(403,000)	(373,000)
Retained earnings, end of year	<u>\$ 8,911,000</u>	<u>\$8,403,000</u>
Earnings per share (based on average number of common shares outstanding during the year).	<u>\$1.22</u>	<u>\$.65</u>

See accompanying notes.



CROWS NEST INDUSTRIES LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the years ended December 31, 1976 and 1975

	<u>1976</u>	<u>1975</u>
Source of funds:		
Funds provided from operations —		
Net income for the year	\$ 918,000	\$ 487,000
Add items not affecting funds		
Depreciation and depletion	1,389,000	1,167,000
Deferred income taxes	181,000	(289,000)
Gain on sale of fixed assets	(53,000)	(39,000)
	<u>2,435,000</u>	<u>1,326,000</u>
Proceeds from sales of fixed assets	55,000	85,000
Other	73,000	(27,000)
	<u>2,563,000</u>	<u>1,384,000</u>
Application of funds:		
Purchase of fixed assets	1,458,000	826,000
Dividends	410,000	380,000
	<u>1,868,000</u>	<u>1,206,000</u>
Increase in working capital	695,000	178,000
Working capital, beginning of year	3,667,000	3,489,000
Working capital, end of year	<u>\$4,362,000</u>	<u>\$3,667,000</u>

See accompanying notes.



CROWS NEST INDUSTRIES LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1976

1. Accounting policies

(a) Consolidation

The consolidated financial statements include the accounts of all the subsidiaries as follows:

Crow's Nest Pass Electric Light & Power Company Limited
Crows Nest Forest Products Company Limited
The Crow's Nest Pass Oil & Gas Company, Limited
Crows Nest Plywoods Limited
East Kootenay Lumber Company Limited
E. C. Letcher Lumber Company Limited
Fernie Equipment Company, Limited
Gold Creek Timber Company Limited
Knight Lumber Company Limited
Kootenay and Elk Railway Company
Line Creek Coal Company Ltd.
The Morrissey, Fernie & Michel Railway Company
St. Marys Lumber Co. Ltd.
Skagit Investments Ltd.

(b) Inventories

Inventories are stated at the lower of average cost and net realizable value. Average cost includes laid down costs of materials as well as applicable direct labour and overhead. Net realizable value consists of anticipated sales values less estimated costs of completion and disposal.

(c) Forest products assets

The forest products fixed assets are valued at cost less accumulated depreciation and depletion. Depreciation is based on the estimated useful lives of the assets and is provided on the straight-line method for the sawmill and the reducing balance method for other plant and equipment.

Annual rates of depreciation for principal categories of assets are:

Sawmill	7%
Logging and plant machinery	25%
Automotive equipment	25%

Depletion is provided on the unit of production method based on estimated reserves of timber.

(d) Petroleum and natural gas assets

Acquisition costs of properties and productive development costs are capitalized. The carrying costs of productive properties, exploration costs and non-productive development costs of petroleum and natural gas properties are expensed as incurred. Depletion is provided on the unit of production method based on estimated reserves of oil and gas and depreciation of production equipment is provided on the reducing balance method at an annual rate of 20%.

(e) Coal properties

Acquisition costs of all coal properties are capitalized together with exploration and carrying costs of proven and semi-proven coal properties. Exploration and carrying costs related to coal prospects are written off as incurred.

(f) **Deferred costs**

Costs applicable to the development of projects are deferred until such time as the related projects are completed or abandoned. At that time such costs are capitalized or expensed as appropriate.

2. Inventories

	1976	1975
Logs	\$1,551,000	\$ 502,000
Lumber	1,169,000	539,000
Materials and supplies	266,000	257,000
	<u>\$2,986,000</u>	<u>\$1,298,000</u>

3. Coal properties

The Company has an agreement with Mitsui & Co. Ltd. under which a detailed feasibility study of the Company's Line Creek coal properties commenced in 1976. If, upon completion of the feasibility study, Mitsui elects to participate with the Company in a joint development of the property, Mitsui will provide financing and acquire 49% of a joint venture company to be formed for that purpose.

4. Deferred costs

Deferred costs consist primarily of study and representation costs applicable to an alternate rail route sponsored by the Company.

5. Notes receivable and share capital

The notes receivable are due from officers and employees and are secured by 2,882 Series "A" preferred shares issued in 1973 under an Executive Share Purchase Plan. The Series "A" preferred shares are convertible into common shares at the rate of ten common shares for eleven preferred shares.

6. Share capital

During the year 2,002 preferred shares with a par value of \$50,050 were converted into 1,820 common shares with a par value of \$14,560. The balance of \$35,490 was credited to contributed surplus.

7. Future income

As part of the consideration for the sale of the Company's coal properties to Kaiser Steel Corporation in 1968, the Company is entitled to receive payments of 50 cents per short ton of coal produced and shipped after December 31, 1976 from the properties sold. These payments are limited to an aggregate of \$34 million and will be included in income as earned.

8. Anti-Inflation program

Effective October 14, 1975 the federal government passed the Anti-Inflation Act and subsequently issued Regulations which are presently scheduled to be in force until December 31, 1978. Under this legislation the company is subject to mandatory compliance with controls on shareholder dividends which, during the year ending October 13, 1977, may not exceed \$.54 per common share.

9. Statutory information — Canada Corporations Act

Remuneration of ten directors	\$ 32,000
Remuneration of four officers	\$155,000
Three officers are also directors	



CROWS NEST INDUSTRIES LIMITED

**CONSOLIDATED TEN YEAR SUMMARY OF
COMPARATIVE HIGHLIGHTS**

	1976	1975	1974
Sales of all products.....	\$13,146,000	\$ 8,397,000	\$10,536,000
Income (loss) before extraordinary items	918,000	487,000	(831,000)
Extraordinary items.....	—	—	—
Net income (loss) for year	918,000	487,000	(831,000)
Income (loss) per common share			
From operations	1.22	.65	(1.11)
Extraordinary items.....	—	—	—
Total	1.22	.65	(1.11)
Common shareholders' equity.....	15,496,000	14,938,000	14,831,000
Equity per common share	20.72	20.03	19.88
Cash dividends declared (common).....	403,000	373,000	373,000
Dividends per common share54	.50	.50
Depreciation and depletion.....	1,389,000	1,167,000	1,329,000
Capital expenditures	1,458,000	826,000	1,351,000
Working capital.....	4,362,000	3,667,000	3,489,000
Production — lumber (fbm).....	77,629,153	52,258,312	76,160,334
Production — oil (bbls).....	158,861	175,248	198,873
Production — coal, coke and breeze (tons)	—	—	—
Number of employees at year-end	356	232	178
Common shares at year-end			
Number outstanding.....	747,692	745,872	745,872
Percentage held by — Canadians	49%	47%	45%
— Others	51%	53%	55%
Number of shareholders at year-end			
Canadian	260	262	235
Other	196	208	229

	1973	1972	1971	1970	1969	1968	1967
\$	18,713,000	\$12,615,000	\$ 8,953,000	\$12,382,000	\$11,189,000	\$12,002,000	\$15,966,000
	2,737,000	1,697,000	914,000	(2,726,000)	(1,515,000)	479,000	381,000
	1,210,000	792,000	273,000	(2,513,000)	—	7,020,000	—
	3,947,000	2,489,000	1,186,000	(5,239,000)	(1,515,000)	7,500,000	381,000
	3.67	2.28	1.22	(3.65)	(2.07)	.66	.52
	1.62	1.06	.37	(3.37)	—	9.59	—
	5.29	3.34	1.59	(7.02)	(2.07)	10.25	.52
	16,042,000	12,846,000	10,730,000	9,730,000	15,079,000	17,142,000	10,103,000
	21.51	17.22	14.39	13.04	20.62	23.45	13.91
	746,000	373,000	186,000	110,000	548,000	548,000	544,000
	1.00	.50	.25	.15 + 2% stk	.75	.75	.75
	1,677,000	1,339,000	1,245,000	1,157,000	863,000	637,000	1,135,000
	2,065,000	1,553,000	720,000	1,262,000	5,425,000	2,395,000	1,090,000
	5,103,000	1,569,000	(529,000)	(11,691,000)	(8,573,000)	(766,000)	473,000
	117,685,885	99,416,526	92,326,957	91,822,345	53,823,668	39,489,957	47,831,535
	259,254	329,917	351,800	344,593	290,846	233,582	174,086
	—	—	—	—	—	167,617	1,105,387
	391	404	394	420	428	344	818
	745,872	745,872	745,872	745,872	731,175	731,175	726,550
	39%	41%	41%	41%	40%	26%	26%
	61%	59%	59%	59%	60%	74%	74%
	235	246	261	258	255	252	305
	237	228	222	237	228	261	253

